

ARIZONA  
**MONTHLY FISCAL HIGHLIGHTS**  
October 2004

General Fund revenue collections were \$543.9 million in October. This amount is \$38.3 million over the forecast for the month and (2.5)% less than October of last year. We received the second federal cash assistance payment of \$87.2 million in October of last year. Adjusting for that one-time revenue source in FY 2004, collections are 15.5% over October of last year.

Collections for the first 4 months of the fiscal year total \$140.3 million over the budgeted forecast. The General Appropriation Act included a provision that any revenue exceeding the budgeted forecast for the first six months of FY 2005 will be dedicated for specific purposes. Any "excess" FY 2005 revenue will be divided evenly between the General Fund and the Budget Stabilization Fund.

October collections for the Big 3 revenue categories were \$61.7 million over the same month last year. Sales tax collections once again were strong, with an increase of \$26.3 million (based on preliminary numbers). Individual income tax collections were \$17.8 million over last year, and corporate income tax collections were up \$17.6 million.

This report also includes a comparison of Arizona's level of federal funding with other states.

**General Fund Revenues**  
**Compared to Adopted Forecast and FY 2004 Collections**  
(\$ in Millions)

	<u>FY 2005 Collections</u>	<u>Difference From Forecast</u> <sup>1/</sup>	<u>Difference From FY 2004</u> <sup>2/</sup>
October	\$ 543.9	\$ 38.3	\$ (14.1)
Year-to Date	\$ 2,323.9	\$ 140.3	\$ 214.8

1/ Enacted FY 2005 budget (May)

2/ Including the receipt of \$87.2 million federal cash assistance grant in October, 2003.

**Sales Tax** revenue increased by 9.9% on a year-over-year basis in October and was \$7.1 million above the forecast for the month. Year-to-date, collections are 9.7% over the first 4 months of last fiscal year and \$33.6 million over forecast for the period. The following is based on collections through September:

- Retail sales tax receipts have increased by 6.6%.
- Contracting continues to exhibit the large increases begun last year, with a year-to-date increase of 17.7%.
- Restaurants and bars collections are up 9.3%.
- Use tax receipts (all of which is retained by the state) are up 17.7%

**Individual Income Tax** collections for October were 9.6% above last year. Withholding tax collections decreased by (0.3)% compared to last year due to 2 fewer processing days for the month. Estimated/final payments were up almost 20% over last year, and refunds were (54.1)% less. Year-to-date total individual income tax collections are 11.2% above last year, and \$47.6 million above the forecast for through October.

**Corporate Income Tax** revenue of \$35.1 million was double October collections last year. While October is not a large collection month, this brings the increase in year-to-date corporate collections to \$38.8 million or 24.1% over forecast.

**Recent Economic Indicators:** Preliminary estimates showed real **U.S. Gross Domestic Product (GDP)** expanded at a 3.7% seasonally adjusted annual rate in 2004's third quarter. Rising personal consumption expenditures and residential fixed investment were among the major contributors. However, the **U.S. Index of Leading Economic Indicators** dropped for the fifth consecutive month in October, suggesting slower growth in the months ahead. Consumer expectations, interest rates, and vendor performance were among the factors pushing the index lower.

**U.S. semiconductor billings** (three-month moving average) lost a bit of its recent momentum, falling (1.7)% in September from the previous period. Even so, they were running 20.1% above the level from a year ago.

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The **U.S. Consumer Price Index (CPI)** jumped 0.6% in October (0.3% on a three-month moving average basis). Excluding the effects of food and energy prices, the core CPI increased 0.2% in October. The index for all categories has increased 2.8% in the last 12 months.

Consumer sentiment faded again in October. The **U.S. Consumer Confidence Index** declined (4.0)% from the prior month, with future expectations and the assessment of current conditions both driving the index downward.

Arizona's economy continued to improve in October, with total **non-farm employment** rising by 2.5% on a year-over-year basis. Manufacturing added 300 jobs in October but was still slightly below its level from a year ago. Meanwhile, the unemployment rate remained unchanged at 4.8%.

The Behavior Research Center's **Arizona Consumer Confidence Index** held course in the fourth quarter 2004 survey. The index was virtually unchanged at 101.1. The assessment of current conditions remained strong, but the expectations for future business conditions, employment and income were slightly less positive than three months ago.

The **Arizona Leading Index** decreased (0.7)% in August. Although hours worked in manufacturing improved, production, delivery times, and inventories posted negative results. The **Arizona Business Conditions Index**, derived from a survey of supply chain managers, dropped by 7.5% in October. A reduction in new orders was largely responsible for the decline.

Among state programs, the **AHCCCS caseload** continued to increase in October. Average enrollment for the last three months was 5.6% higher than the previous three-month period.

The **number of TANF recipients** (3-month average) declined to 113,554 in September, a (2.0)% drop from the previous three-month period.

From August through October, the **Department of Corrections' inmate population** increased by an average of 121 from the previous three months. The average head count was 1,057 higher than the level from a year ago.

## RECENT ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
<b>Arizona</b>				
- Unemployment Rate	October	4.8%	0.0%	(0.7)%
- Jobs	October	2.38 million	1.1%	2.5%
- Contracting Tax Receipts (3-month average)	July-September	\$55.4 million	10.0%	17.7%
- Retail Sales Tax Receipts (3-month average)	July-September	\$131.8 million	(4.0)%	6.6%
- Residential Building Permits - (3-month moving average)				
Single-unit	September	7,293	(4.6)%	27.6%
Multi-unit	September	754	6.2%	34.5%
- Arizona Tourism Barometer	July	89.5	(1.8)%	3.1%
- Phoenix Sky Harbor Air Passengers	September	3.02 million	(10.4)%	9.6%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	August	\$5.53	(1.3)%	14.3%
- Leading Indicators Index	August	124.2	(0.7)%	1.6%
- Business Conditions Index (>50 signifies expansion)	October	62.0	(7.5)%	(4.0)%
- Consumer Confidence Index	4 <sup>th</sup> Quarter 2004	101.1	(0.2)%	10.1%
- Business Leaders Confidence Index	4 <sup>th</sup> Quarter 2004	65.5	(4.1)%	5.1%
- Arizona Personal Income	2 <sup>nd</sup> Quarter 2004	\$158.8 billion	1.4%	6.4%
- Arizona Population	1 <sup>st</sup> Quarter 2004	5.76 million	0.9%	3.2%
- AHCCCS Recipients (3-month average)	August-October	777,684	5.6%	3.8%
- TANF Recipients (3-month average)	July-September	113,554	(2.0)%	(12.2)%
- DOC Inmate Growth (3-month average)	August-October	32,385	121 inmates	1,057 inmates
<b>United States</b>				
Gross Domestic Product	3 <sup>rd</sup> Quarter 2004	\$10.9 trillion	3.7%	3.9%
- (seasonally adjusted annual growth rate)				
- Consumer Confidence Index	October	92.8	(4.0)%	13.6%
- Leading Indicators Index	October	115.1	(0.3)%	1.1%
- U.S. Semiconductor Billings -(3-month moving average)	July-September	\$3.3 billion	(1.7)%	20.1%
- Consumer Price Index - (3-month moving average)	August-October	190.1	0.3%	2.8%

# State of Arizona

## General Fund Revenue: Change from Previous Year and January Revised Forecast October 2004

	Current Month					FY 2005 YTD (Four Months)				
	Actual October 2004	Change From				Actual October 2004	Change from			
		October 2003		Revised Forecast			October 2003		Revised Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b><u>Taxes</u></b>										
Sales and Use	\$292,004,300	\$26,272,962	9.9 %	\$7,056,898	2.5 %	\$1,168,273,912	\$102,857,390	9.7 %	\$33,585,700	3.0 %
Income - Individual	203,622,310	17,825,780	9.6	14,775,628	7.8	850,196,346	85,661,421	11.2	47,615,390	5.9
- Corporate	35,109,943	17,610,320	100.6	11,650,411	49.7	199,714,695	70,067,062	54.0	38,843,736	24.1
Property	2,006,777	(899,569)	(31.0)	(485,693)	(19.5)	2,334,829	(6,956,563)	(74.9)	(799,408)	(25.5)
Luxury	5,060,985	208,619	4.3	145,985	3.0	20,246,480	1,243,159	6.5	586,480	3.0
Insurance Premium	444,427	(110,580)	(19.9)	168,422	61.0	100,880,443	30,409,020	43.2	6,578,168	7.0
Estate	2,266,156	(740,123)	(24.6)	591,156	35.3	15,020,647	1,389,868	10.2	8,320,647	124.2
Other Taxes	1,024,981	(226,812)	(18.1)	154,981	17.8	1,173,472	(300,976)	(20.4)	(2,306,528)	(66.3)
<b>Sub-Total Taxes</b>	<b>\$541,539,879</b>	<b>\$59,940,597</b>	<b>12.4 %</b>	<b>\$34,057,788</b>	<b>6.7 %</b>	<b>\$2,357,840,824</b>	<b>\$284,370,381</b>	<b>13.7 %</b>	<b>\$132,424,185</b>	<b>6.0 %</b>
<b><u>Other Revenue</u></b>										
Lottery	3,038,900	983,200	47.8	0	0.0	8,630,100	(2,729,400)	(24.0)	0	0.0
License, Fees and Permits	2,180,845	15,436	0.7	(337,334)	(13.4)	9,896,760	1,554,315	18.6	1,791,357	22.1
Interest	1,569,382	614,165	64.3	411,535	35.5	5,927,781	(8,856,379)	(59.9)	2,298,466	63.3
Sales and Services	2,143,387	(5,494,174)	(71.9)	(2,632,960)	(55.1)	10,709,340	(6,208,223)	(36.7)	(3,163,502)	(22.8)
Other Miscellaneous	1,913,487	(2,001,706)	(51.1)	(261,266)	(12.0)	4,800,100	(4,931,559)	(50.7)	(2,172,269)	(31.2)
Disproportionate Share	0	0	--	0	--	0	(5,625,187)	(100.0)	0	--
Transfers and Reimbursements	7,839,789	(79,793,383)	(91.1)	7,020,089	856.4	19,942,580	(68,198,639)	(77.4)	9,146,980	84.7
<b>Sub-Total Other Revenue</b>	<b>18,685,790</b>	<b>(85,676,462)</b>	<b>(82.1) %</b>	<b>4,200,064</b>	<b>29.0 %</b>	<b>59,906,661</b>	<b>(94,995,072)</b>	<b>(61.3) %</b>	<b>7,901,032</b>	<b>15.2 %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$560,225,669</b>	<b>(\$25,735,865)</b>	<b>(4.4) %</b>	<b>\$38,257,852</b>	<b>7.3 %</b>	<b>\$2,417,747,485</b>	<b>\$189,375,309</b>	<b>8.5 %</b>	<b>\$140,325,217</b>	<b>6.2 %</b>
<b><u>One-Time Revenue</u></b>										
Urban Revenue Sharing	(31,089,382)	(667,285)	2.2	135	(0.0)	(124,357,525)	(2,669,137)	2.2	543	(0.0)
Budget Balancing Transfers	0	0	--	0	--	0	0	--	0	--
VLT Transfer	14,660,800	14,660,800	--	0	0.0	28,260,800	28,260,800	--	0	0.0
Judicial Enhancement	63,190	(2,406,025)	(97.4)	0	0.0	2,270,190	(199,025)	(8.1)	0	0.0
<b>Sub-Total Transfers In</b>	<b>(16,365,392)</b>	<b>11,587,490</b>	<b>(41.5) %</b>	<b>135</b>	<b>(0.0) %</b>	<b>(93,826,535)</b>	<b>25,392,638</b>	<b>(21.3) %</b>	<b>543</b>	<b>(0.0) %</b>
<b>TOTAL REVENUE</b>	<b>\$543,860,277</b>	<b>(\$14,148,375)</b>	<b>(2.5) %</b>	<b>\$38,257,987</b>	<b>7.6 %</b>	<b>\$2,323,920,950</b>	<b>\$214,767,947</b>	<b>10.2 %</b>	<b>\$140,325,760</b>	<b>6.4 %</b>

VP% = Percent change from comparable period in prior year

VF% = Variance from forecast

F% = Forecast percent change for the fiscal year.

R% = Average percent change from comparable period in prior year which must be attained over remaining months to realize the forecast for year.

The JLBC only considered Executive Session Risk Management settlements at its November 17<sup>th</sup> meeting.

Recent Census Bureau information compiled by Federal Funds Information for the States (FFIS) shows that Arizona obtained \$37.8 billion in federal funds in Federal Fiscal Year (FFY) 2003. Arizona's population represented 1.92% of the total national population in 2003, while Arizona received 1.91% of total federal funds (see Table 1 below). Arizona ranked 26<sup>th</sup> nationally in overall per capita receipt of federal funds. In 1998, Arizona ranked 28<sup>th</sup> nationally.

Federal spending is separated into four major components: Direct Payments, Grants, Procurement, and Salary and Wages.

Direct Payments are funds that go directly from the federal government to an individual and include Social Security, Medicare, federal retirement and disability payments, food stamps, housing assistance and farm payments. Arizona received 1.75% of all direct payments in FFY 2003, ranking 40<sup>th</sup> nationally in per capita receipts. In 1998, Arizona ranked 34<sup>th</sup> nationally.

- Grants include all categorical block and formula grants-in-aid to state and local governments and individuals. The state received 1.68% of all federal grants in FFY 2003, ranking 40<sup>th</sup> nationally in per capita receipts in this category. In 1998, Arizona ranked 34<sup>th</sup> nationally.
- Procurement contracts are purchases by federal agencies. Arizona received 3.03% of all federal procurement contracts in FFY 2003, ranking 8<sup>th</sup> nationally in per capita receipts. In 1998, Arizona ranked 15<sup>th</sup> nationally.
- Salary and Wages include payments to all military and civilian employees of the federal government. Arizona received 1.73% of all federal salaries and wages in FFY 2003, ranking 28<sup>th</sup> nationally in per capita receipts. In 1998, Arizona ranked 26<sup>th</sup> nationally.

	Direct Payments	Grants	Procurement	Salaries and Wages	Total
Total Funding (\$ in Millions): 2003	18,675	7,235	8,557	3,335	\$37,801
Arizona % of total federal funds: 2003	1.75	1.68	3.03	1.73	1.91%
Per capita rank: 2003	40	40	8	28	26th
Per capita rank: 1998	34	34	15	26	28th